



DOTTORATO DI RICERCA IN  
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**LE OPERAZIONI DI VENTURE CAPITAL**

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## ABSTRACT

The purpose of this thesis is to analyze the various phases of venture capital investments and the relevant underlying contractual structures, trying to read venture capital investments on the basis of the works of Schumpeter, and in particular with reference to the papers concerning the relationship between investors and entrepreneurs.

In more detail, this thesis moves from the attempt to give a definition of venture capital and, to this purpose, the various phases of the life cycle of a firm will be briefly identified, focusing on the different economic/financial needs characterizing each of such phases. The analysis will, then, focus on the differences between private equity and venture capital, which are mainly given by the different phases of the life cycle of a firm on which such investors focus their respective business. In light of this differentiation, therefore, it is possible to give a definition of venture capital, according to which the venture capitalists are those investors who provide funds to firms that are elaborating and defining the a business idea, or in the start-up phase their businesses. Being this terminological aspect clarified, the analysis will focus on the function of venture capitalists in financing new enterprises and on the purposes underlying their investments, concluding that venture capitalists invest in businesses that are in the early phases of their life cycle in order to support their growth and to divest once such firms are developed, gaining a profit equal to the difference between the amount invested and the proceeds of the sale.

The second part of this first analysis is the study of the different steps in which it is commonly divided the business cycle of the venture capital. In particular:

- (a) **Collection of funds:** the analysis will focus on the different structures used by venture capitalists to carry out their business, identifying also the various entities and/or individuals financing the

venture capitalists and the possibility for the latter to use leverage to finance the enterprises they intend to acquire and finance.

- (b) **Investment:** in this section the analysis will focus on the selection and evaluation of the firms that the venture capitalist decides to finance, and the means by which their investment transactions are implemented, as well as the relevant underlying contractual instruments.
- (c) **Management of the investment:** the analysis will focus on the involvement of the venture capitalist in the management of the financed firm and on the support given to the latter through its managerial skills and business expertise. In this section, the work also deepens the relationship between venture capitalists and the entrepreneur identifying the contractual instruments through which the parties address their relationships (such as, without limitation, shareholders' agreements, and provisions contained in the by-laws).
- (d) **Exit:** the analysis will cover the different structures and paths pursued by venture capitalists in divesting their stakes in the financed companies. In this respect, it is highlighted the importance of setting forth contractual provisions addressing the divestment procedures at the time of investment.

Considering the innovative features characterizing the entrepreneurial activities funded by venture capitalists as well as the special relationship between the venture capitalists and the entrepreneur, the analysis will cover the theory of the entrepreneurship developed by Schumpeter in his works. In particular, referring to the most significant work entitled "*Theory of Economic Development*" as well as to other writings on the entrepreneur, the analysis will identify the role that Schumpeter gave to the entrepreneur in the economic cycle, defining the entrepreneur as the entity (or the individual) who, through innovation in the production process or in the products commercialized, breaks the equilibrium and allows the development of the market. The capacity and the innovative attitude of the entrepreneur outlined by Schumpeter would not be able to produce changes within the market without the funding

received by specialized operators (in particular by the “*banker*”). Being defined the figure of the banker within the theory of the entrepreneur of Schumpeter, the analysis will focus on the features of the financial operator and its role in the cycle of economic development, as well as on the importance of its support in the implementation of the ideas developed by the entrepreneur. In light of the above, it will be possible to argue that the banker has not the ancillary role of a mere lender, but it is considered a protagonist, along with entrepreneur, of the economic development, in particular through the careful selection and evaluation of enterprises to be funded.

Being duly described the role of both the entrepreneur and banker within the broader theory of economic development designed by Schumpeter, the thesis will compare, on one hand, the role of the venture capitalist— in venture capital investments - and the banker and , on the other hand, the Schumpeter's entrepreneur and the entrepreneur financed by venture capitalists. From such analysis it is possible to argue that the banker and the entrepreneur developed by Schumpeter in his theory of economic development are comparable, in terms of function and role that ontologically each of them have within such theory and in the implementation of a business idea, respectively, to the venture capitalist and entrepreneur funded in venture capital transactions. However, in light of the analysis carried out in the previous part of the thesis, it is possible to argue that the relationship between the venture capitalist and the entrepreneur results to be substantially different from the relationship between the banker and the entrepreneur in Schumpeter's theory. In this respect, it should be underlined that the relationship between the venture capitalist and the entrepreneur is featured, as shown in the analysis of the steps of the business cycle of venture capital, by the circumstance that the venture capitalist takes and plays a fundamental role in the management of the financed enterprise, defining the paths for the economic growth of the firm and introducing new models of management . This activity is not performed by the banker in Schumpeter 's theory, within which the banker plays the role of selector of ideas funding their development, without actually taking care of the management of the firm and of the implementation of the underlying business idea. Moving from such assumption, the thesis focuses on the importance of the relationship between the

entrepreneur and the venture capitalist as key point for the success or the failure of venture capital investments. This analysis reveals that such relationship should be contractually defined in order to balance the different interests and to increase the possibility for the financed firm to succeed.

The analysis continues focusing on and highlighting the circumstance that, notwithstanding the differences between the theoretical model designed by Schumpeter, the venture capitalism is certainly an important instrument, which support the growth and the development of innovative firms. In such type of investments, in any case, it is necessary to pay particular attention in addressing the relationship between the entrepreneur and the venture capitalist through the design and the implementation of a proper corporate governance structure in order to balance their different interests in the investment and to avoid that conflicts between these protagonists of the growth of the firm might cause the fall of the latter.

In the last section of the thesis, the analysis moves from the identification of the areas in which the policy makers could intervene in order to support the development of a real venture capitalmarket in Italy to conclude that the policies should be primarily designed to support the development of the conditions for venture capital investments, such as, the diffusion of an entrepreneurial culture based on the research and development, which allows the setting up of new innovative firms to be financed by the venture capitalists, a favorable tax system, and the development of a market for easing exits from the investments.